Body:	**Cabinet**
Date:	**14 March 2023**
Subject:	**Financial Performance Quarter 3 2022-23**
Report of:	**Homira Javadi, Director of Finance and Performance**
Cabinet member:	**Councillor Stephen Holt, Cabinet member for financial services**
Ward(s):	**All**
Purpose of the report:	**To update Members on the Council's financial performance for the third quarter of the year 2022-23.**
Decision type:	**Non Key**
Recommendation:	**Cabinet is recommended to :** **i) Note the General Fund, HRA and Collection Fund financial performance for the quarter, as set out in Part B of the report.**
Reasons for recommendations:	**To enable Cabinet members to consider specific aspects of the Council's financial progress and performance.**
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1 Introduction

1.1 The budget approved by Council in February 2022 was balanced over the medium term and was set based on a number of key assumptions including pay and cost inflation. Inflation had been calculated for premises and transport related costs including utilities, business rates and fuel based on latest market intelligence and CPI forecasts from Central Government. Whilst there were concerns about the rapidly rising levels of inflation, the advice at that time indicated a short term and sharp spike rise in inflation followed by a return to previously experienced levels by early spring.

1.2 The CPI has since nearly tripled which when coupled with the proportion of use and demand for consumables such as utilities, fuel, goods and services has created and continues to give rise to significant budgetary concerns.

UK CPI table

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2022	4.90%	5.50%	6.20%	7.80%	7.90%	8.20%	8.80%	8.60%	8.80%	9.60%	9.30%	9.20%	7.90%
2021	0.90%	0.70%	1.00%	1.60%	2.10%	2.40%	2.10%	3.00%	2.90%	3.80%	4.60%	4.80%	2.49%
2020	1.80%	1.70%	1.50%	0.90%	0.70%	0.80%	1.10%	0.50%	0.70%	0.90%	0.60%	0.80%	1.00%

1.3 The Council operates Directorate cash limited budgets and Corporate Management Team/Directors are responsible for ensuring that appropriate action is taken to contain both revenue and capital spending in line with the directorate's overall budget limit. The challenges facing local residents as a result of the cost of living crisis are very real and very urgent. The council cannot singlehandedly resolve these complex and national level issues. There has been a wave of authorities at every level that have revealed their budget plans are in pieces due to the huge spike in costs since April 2022 and authorities across the country are not immune to the national financial pressures while facing increasing demand and increasing cost pressures.

1.4 Various authorities are dealing with a very difficult set of circumstances currently and face a real challenge to balance the budget this year, while forecasting a significant overspend with the main causes being record inflation levels, soaring energy prices, pay deal for staff, etc. This is the reality for councils across the country at the moment and it has been widely reported that inflation, energy costs and other current challenges are predicted to lead to £2.4bn in extra cost pressures to councils this year alone, rising to £3.6bn in 2024-25. Therefore, there might be a need for various authorities including this Council to lobby the Government for additional supports.

1.5 Another critical issue for the council is that its capital projects are facing an uncertain future due to the increase in material costs. It is too early to have a clear view of the impact of the inflationary pressures while the assumption is that stand-alone projects that are already in-progress will be delivered as planned but that future projects that have not yet started may need to be re-evaluated. In the same way households are struggling with rising costs, it is also becoming more and more expensive for the council to provide the services that people need. This comes at a time when the Council's budgets are already under immense strain, with savings already required due to the impacts of austerity and the pandemic.

1.6 Through the Priority Based Budgeting approach, each area of the Council's expenditure was scrutinised, and a range of ongoing budget reduction options were prepared for members' consideration. Some of the proposals will deliver a level of budget reduction in the current financial year, whilst others will yield savings, or increased income generation for years to come. Future budget setting will be taking into consideration current financial pressures and challenges due to ongoing inflation trajectory. The Council has a robust governance process for tracking delivery of agreed savings through the Recovery and Stabilisation Programme meetings, whilst work is still underway to assess developed savings plans.

1.7 The Council's overall annual revenue spend is managed and monitored across a number of areas and at Quarter 3, the budget holders are forecasting a risk of overspend of approximately £0.392m (as shown within the table below), which CMT should in the first instance set out in-service options for mitigation. Where these are considered undeliverable, or pressures cannot be contained across the directorate the budget monitoring/scrutiny process will be triggered and a request may be made for the Cabinet to consider granting a supplementary estimate redirecting funds from an alternative source.

1.8 Through careful planning and re-profiling during the 2021/22 year-end, the Council has been able to provide resilience by setting aside specific reserves to address ongoing Cost of living, Inflation, Fuel & Energy Cost and Bad debt along with carry forwards, £1.6m of these have been brought into the position as one-off funding to provide relevant immediate support.

1.9 The budget 2022/23 was revised in light of identified pressures and approved by Full Council in February 2023.

2 General Fund

2.1 The General Fund projected out-turn for 2022/23 as at 31 December, quarter 3, is shown in the summary table 1 below, as an overspend of £392,116 against the revised budget. This shows we are still largely managing the increased cost of housing needs, energy costs and economic down-turn. A number of internal adjustments are to be actioned at year end to target reserves to where they are needed most based on latest projections.

Table 1: Summary of projected out-turn as at Quarter 3	Revised Budget 2022-23 £	Internal Adjustments £	Projected Outturn Including Internal Adjustments £	Projected Variance at year end (Quarter 3) £
Corporate Services	4,443,467	(300,000)	4,439,759	(3,708)
Service Delivery	8,732,350	(1,150,000)	9,045,163	312,812
Regeneration and Planning	(98,355)	(842,000)	(31,605)	66,750
Tourism and Culture	2,832,502	692,000	2,801,525	(30,977)
Net Cost of Services	15,909,964	(1,600,000)	16,254,842	344,878
Other Operating Income & Expenditure	487,450	0	249,000	(238,450)
Capital Financing	2,103,400	0	750,300	(1,353,100)
Net Budget	18,500,814	(1,600,000)	17,254,142	(1,246,672)
Transfer from reserves	(1,602,622)	1,600,000	(2,622)	1,600,000
Financing	(16,898,192)	0	(16,859,404)	38,788
Total Financing	(18,500,814)	1,600,000	(16,862,026)	1,638,788
Over/ (under) budget	(0)	0	392,116	392,116

*transfer from /to reserves subject to final accounts adjustments

The projected out-turn for 2022/23, advised by budget holders as of 31 December 2022 is an overspend against the revised budget of £0.392m.

Some of the provisions from 2021/22 were carried forward due to reprofiling and alignment of budget. Where applicable these have been incorporated into relevant budgets and form part of the revised budget as approved by Full Council in February 2023.

The residual projected overspend of £0.392m, in the main is due to the anticipated impact of price inflation for energy costs, increased cost of goods and services, pressures in regeneration and planning and pressures in services due to rising volumes in the number of homeless and rough sleeper placements, which are explored further below. The additional cost of the April 2022 pay award agreed recently is £437k and is incorporated into Service revised budgets.

2.2 At the time of preparing this report, more detailed work on business rates shared benefits and retention value was taking place. Any further adjustments required as a result of this work will be reflected in the final accounts report.

Inflation is currently (December 2022) at over 10% and the Bank of England recently (February 2023) increased base rates by 1% to 4%, the 10th successive increase and the highest level since 2008, impacting the cost of borrowing and mortgage interest rates.

The impact on consumer spending power, and bad debts is uncertain especially on income targets in areas such as Tourism, hospitality and Culture which are still recovering from the economic impact of Covid19 pandemic.

By setting aside targeted reserves at the 2021/22-year end, the council has been able to create greater financial resilience and additional capacity to bring into position £1.602m of one off funds to support the 2022/23 shortfall. This provision enables the authority to further develop and extend its recovery and stabilisation programme in order to mitigate inflationary impacts as follow:

- Tourism and Culture has been supported from £755k of one-off funds from earmarked reserves
- Service Delivery has been supported by £280k grant reserves.
- Planning have required reserves of £204k to afford the local plan which is required every 4 years.
- £90k of better care fund (BCF), £3k community environment partnership and £20k carry forward to fund litter and dog waste bins have been brought forward to support the service and bottom line; and
- £250k to support increased energy costs are shown in the position.

In addition, a £400k contribution from reserves to meet inflationary and other pressures in Regeneration and Planning will be subject to final account adjustments.

The budget includes savings targets of £3.294m, which have been incorporated to the relevant service.

Key variances are set out in the following table:

2.3 Corporate Services favourable variation £3,708:

Corporate Services	Revised Budget 2022-23 £	Internal Adjustments £	Projected Outturn Including Internal Adjustments £	Projected Variance at year end (Quarter 3) £
Corporate Management Team	77,939	0	81,800	3,861
Business Planning and Performance	510,345	0	615,954	105,609
Financial Services	768,747	0	771,100	2,353
Corporate Finance	525,669	0	623,550	97,881
Human Resources	379,690	0	434,500	54,810
Business Transformation	1,328,254	0	1,310,805	(17,449)
Legal and Local Democracy	938,572	0	987,800	49,228
Local Land Charges	(85,750)	0	(85,750)	0
Internal Adjustments	0	(300,000)	(300,000)	(300,000)
Corporate Services	4,443,467	(300,000)	4,439,759	(3,708)

Corporate Services are showing a net favourable variation of £4k due to:

- Business Planning and Performance adverse variation £106k mainly due to a newly created role to be offset by procurement savings at year end.

- Corporate Finance adverse variation £98k due to additional insurance premium costs £103k and bank and brokerage charges £74k offset by savings on deleted post and pensions £79k.

- Human Resources £55k – additional occupational health contract usage costs £28k and training costs £54k offset by savings in salary costs £27k.

- Savings of £17k on Business transformation which now includes ICT

- Legal and Democratic services £49k mainly due to a newly created role £38k and additional staff costs £11k.

Please note in addition to internal adjustments of £300k to be actioned at year-end, there is a small carry forward of £3k for the community environment Partnership included in the revised budget.

2.4 Service Delivery, projected overspend £312,812:

Service Delivery	Revised Budget 2022-23 £	Internal Adjustments £	Projected Outturn Including Internal Adjustments £	Projected Variance at year end (Quarter 3) £
Director of Service Delivery	295,214	0	309,750	14,536
Customer First Retention Team	1,032,309	0	1,823,450	791,141
Neighbourhood First	2,078,103	0	2,396,002	317,898
Environment First	4,426,483	0	4,403,602	(22,881)
Homes First	900,241	0	1,262,359	362,118
Internal Adjustments	0	(1,150,000)	(1,150,000)	(1,150,000)
Service Delivery	8,732,350	(1,150,000)	9,045,163	312,812

The service is predicting overspends against staff costs, and pressure with cost of placements for homeless, details of which are shown below. These will be partially reduced through internal adjustments at year-end:-

Customer First Retention Team adverse variation of £791k

- The majority, £1,001k, is due to rising volumes in the number of Homeless placements (Statutory and Rough Sleeper – projected at 254) and the impact on housing benefit payments. There is a projected shortfall in Housing Benefit Overpayment income of £71k which is offset in part (£274k) by an increase in the subsidy receivable on Private Tenant housing benefit.

- £156k relates to agency and staff costs in the Income, Maximisation & Welfare and Regulatory Service Teams
- £37k Shortfall in Summons Income
- Bereavement Services adverse variation of £147k due to a reduction in crematorium income.
- the above will be offset by £750k carried forward Better Care Funding.

Neighbourhood First adverse variation of £318k

- Neighbourhood First Team and Devonshire Grounds staffing costs £279k
- Town Hall & College Road Security & Repairs Maintenance costs £137k
- £117k mainly due to Ash die back & Cliff Watch costs.
- Additional car park income (£93k)
- The above pressures will be offset by Tourism and Culture savings.

Homes First adverse variation of £362k:

- Increased cost of rough sleeper placements of £337k partially offset by (£109k) new Homeless Prevention Winter Top Up grant funding and a (£280k) contribution from Reserves.
- Increased use of homeless spot purchase accommodation £70k
- Increased cost of agency and staffing £267k
- Cost of compensation and legal costs £30k
- Cost of Wellbeing Service £42k

Please note the above position includes £20k of carry forward from 2021-22 which is to fund litter and dog waste bins, an allocation of £90k of Better Care Fund (BCF) carried forward from previous year, a contribution from grant of £280k.

2.5 <u>Regeneration and Planning projected overspend of £66,750</u>

Regeneration and Planning	Revised Budget 2022-23 £	Internal Adjustments £	Projected Outturn Including Internal Adjustments £	Projected Variance at year end (Quarter 3) £
Director of Regeneration & Planning	42,229	0	46,406	4,177
LDC EHL Rechargeable Salaries	0	0	0	0
Head of Commerical Business and Property	43,441	0	44,870	1,429
Planning	613,031	0	829,922	216,891
Estates and Property	(1,097,282)	0	(431,327)	665,955
Housing Delivery	78,375	0	127,618	49,243
Regeneration	221,850	0	192,906	(28,944)
Internal Adjustments	0	(842,000)	(842,000)	(842,000)
Regeneration and Planning	(98,355)	(842,000)	(31,605)	66,750

Regeneration and Planning is anticipating significant pressures within its service delivery, mainly due to the economic climate and high inflation levels, particularly on energy costs. The main variations are listed below and these will be mainly reduced through internal adjustments at year-end:-

Planning adverse variation of £217k:

- Additional Consultancy costs for local plan 2 £103k
- Planning appeal costs £40k,
- Salary and consultancy pressure £112k
- Mitigated by staff saving in Policy team £38k.

Estates and Property adverse variation of £666k:

- Corporate landlord £127k pressure due to increased energy costs.

- Pressures of £380k against vacant properties within investment properties significantly made up of: £376k B&Q rent refund an increase of £183k from Q2. The rent pressure on the rest of the properties, vacant or partial occupied amounts to £362k, £92k rates on empty properties, £76k on electric, repairs, specialist, and legal fees, offset by £400k contribution from reserves.

- Farms and Lands letting £45k pressures includes reduced lettings income and increased maintenance costs.

- Housing Delivery adverse variation of £49k due to staffing costs £75k, energy cost £13k partly offset by joint venture income £33k.

- Regeneration: £29k service savings.

Please note in addition to £204k of reserves to fund the local plan, there is a £250k transfer of gas costs to Sovereign Centre and a transfer from reserves of £650k to meet increased energy costs and other pressures.

<u>Tourism and Culture projected underspend of £30,977</u>

Tourism and Culture	Revised Budget 2022-23 £	Internal Adjustments £	Projected Outturn Including Internal Adjustments £	Projected Variance at year end (Quarter 3) £
Towner	420,400	0	420,400	0
Tourism and Culture	1,040,217	0	1,030,525	(9,692)
Events	226,296	0	234,600	8,304
Theatres	408,633	0	271,600	(137,033)
Sports Delivery	679,619	0	131,200	(548,420)
Seafront	57,337	0	21,201	(36,136)
Internal Adjustments	0	692,000	692,000	692,000
Tourism and Culture	2,832,502	692,000	2,801,526	(30,977)

The Sovereign Centre and the Congress Theatre have largely improved their performance from that reported previously which means there is no requirement for funding from reserves and these will be subject to internal adjustments at year-end.

The savings target of £500k for VAT exemption is delayed and alternative options are in place to compensate against this delay.

Tourism and Culture favourable variation £9k:-

- Catering increase in salary related costs £213k
- The Pavilion Income shortfall £61k
- Heritage and Tourist Information Services adverse staff related costs £117k
- Conferences favourable income generation £84k
- Other minor favourable variances £15k
- Contribution from reserves £301k

Theatres favourable variance of £137k:

- Congress Theatre and show account projected income surplus of £128k.
- Various Theatre favourable variance £31k
- Devonshire Park Theatre reduced audiences £152k
- Staffing pressures £157k,
- Welcome Building reduced letting income £45k
- Contribution from reserves £332k

Sports Delivery favourable variance of £548k due to better than anticipated increase in membership at the Sovereign Centre generating fee income significantly above budget.

Seafront £36k favourable variance is due to ice-cream sales no achievable income of £30k, the closure of Redoubt Event with £23k of increased costs and bandstand £7k offset by increased income of £96k for Beach Huts and deckchairs.

2.6 Other Operating Income & Expenditure, Capital Financing and Reserves

Other Operating Income, Capital Financing & Financing including Reserve movments	Revised Budget 2022-23 £	Internal Adjustments £	Projected Outturn Including Internal Adjustments	Projected Variance at year end (Quarter 3) £
Contingencies	250,000	0	0	(250,000)
Precepts and Levies	237,450	0	249,000	11,550
Other Operating Income & Expenditure	487,450	0	249,000	(238,450)
Capital Financing	2,103,400	0	750,300	(1,353,100)
Transfers from Reserves	(1,602,622)	1,600,000	(2,622)	1,600,000
Financing	(16,898,192)	0	(16,859,404)	38,788
Total Financing	(18,500,814)	1,600,000	(16,862,026)	1,638,788

Contingencies positive variation of £250k

- this budget has no commitments against it and has been fully released to support the bottom line.

Capital Financing positive variation of £1,353k

- external interest payments on loans are projected to save £587k when compared to the budget which is consistent with previous years.

- the recent increase in interest rates will result in additional interest receivable on investments by £155k.

- following their review, the Treasury Management advisors, Link Group, have advised that minimum revenue provision (MRP) can be reduced to nil in 2022-23 generating a saving of £611k

Financing including Transfer from Reserves adverse variation of £39k

- Please note the transfer from reserves and carry forwards of £1,602k have been incorporated into relevant service budgets and form part of Service revised budgets.

- Financing BR pool share lower than anticipated £124k offset by an increase in grants of £86k.

3 Housing Revenue Account (HRA)

3.1 The performance on the HRA for quarter 3 is as follows:

The original budget was set at a net £3.093m including a revenue contribution to HRA capital programme of £2.934m, which is fully funded from reserves. The budget was increased by net £0.355m, also funded by reserves, resulting in a revised budget of £3.448m as approved by Full Council in February 2023.

The overall forecasted net position in comparison to the revised budget on the HRA, at quarter 3, is a balanced position.

HRA Summary Quarter 3	Original Budget £000's	Revised Budget £000's	Projected Outturn £000's	Q3 Variance £000's
Income	(16,355)	(16,311)	(16,311)	
Expenditure	14,797	15,415	15,391	(24)
Capital Financing	1,717	1,616	1,640	24
Contribution to Capital Expenditure	2,934	2,728	2,728	0
Total	3,093	3,448	3,448	0

- There are, however, pressures of £79k on management fee and £24k on interest income receivable being lower than anticipated. This is offset in full by savings of103k on supervision and management costs.

- The work undertaken to inform the delivery of the capital programme including HRA projects has concluded. The outcome is a reduction of £0.206m in the projected revenue contribution to capital to £2.728m.

Further details can be found at Appendix 1

4.0 Collection Fund

4.1 The Collection Fund records all the income from Council Tax and Business Rates and its allocation to precepting authorities.

4.2 The Collection fund for the year is as follows:

	Council Tax £'000	Business Rates £'000
Actual Balance 1 April 2022 - (Surplus) / Deficit	(890)	12,450
(Recovery) / Distribution of Prior Year Deficit or Surplus	908	(9,952)
Total Collectable Income for year*	(78,581)	(32,076)
Payments to Preceptors	76,440	34,202
Write offs, provisions for bad debts and appeals	1,094	305
Estimated Balance 31 March 2023 – (Surplus) / Deficit	**(1,029)**	**4,929**
Allocated to:		
Central Government	-	2,465
East Sussex County Council	(755)	443
Eastbourne Borough Council	(121)	1,972
Sussex Police & Crime Commissioner	(107)	-
East Sussex Fire Authority	(46)	49
Total	**(1,029)**	**4,929**

* This represents the latest total amount of income due for the year and allows for changes as a result of discounts, exemptions and reliefs, as well as changes in the Council Tax base and Business Rate yield.

4.3 Government regulations determine how payments to preceptors and the recovery or distribution of a prior year deficit or surplus are allocated.

4.4 Council Tax has a forecast surplus for the year of £1.029m as at Q3 December (£1.119m Q2 September). The Council's share of the estimated surplus is £121k (£0.133m Q2). With the cost of living crisis and the country facing a longer recession, bad debt provisions are currently under review and will be updated at Q4.

4.5 Business Rates has a forecast deficit for the year of £4.929m as at Q3 December (£4.118m Q2 September). The Council's share of the estimated deficit is £1.972m (£1.647m Q2). Section 31 grant from central government is received as compensation for some additional reliefs provided.

4.6 The estimated year end positions for Council Tax and Business Rates, used for 2023/24 budget setting, were formalised and agreed in January 2023.

5 Capital Expenditure

5.1 Capital Expenditure – Housing Revenue Account (HRA)

The table below shows a revised HRA capital budget for the year of £12.9m, with expenditure at the end of quarter 3 of £8.8m. Details of the capital programme are in **Appendix 2**.

HRA CAPITAL PROGRAMME	Original Budget 2022/23	Revised Budget 2022/23	Actual Spend Q3 2022/23	Variance to Budget
	£’000	£'000	£'000	£'000
Construction of Dwellings	11,784	7,723	5,027	(2,696)
Improvements to Stock	5,816	4,816	3,367	(1,449)
Adaptations	450	450	464	14
Sustainability Initiatives Pilot	160	-	-	-
Total HRA	**18,210**	**12,989**	**8,858**	**(4,131)**

5.2 **Capital Expenditure – General Fund**

The table below shows a General Fund revised capital budget for the year of £11.4m, with expenditure at the end of quarter 3 (Q3) of £3.5m. The Revised Budget is updated for ongoing projects carried over from the previous financial year and projects that will not be completed in 2022/23 and have been re-profiled to 2023/24 and later years. Details of the capital programme are in **Appendix 2.**

GENERAL FUND CAPITAL PROGRAMME	Original Budget 2022/23	Revised Budget 2022/23	Actual Spend Q3 2022/23	Variance to Budget
	£'000	£'000	£'000	£’000
Loans to Housing Companies	1,460	1,638	565	(1,073)
Community Services	2,145	3,178	1,072	(2,106)
Tourism & Leisure	150	198	164	(34)
Corporate Services	935	1,443	338	(1,105)
Regeneration	8,817	2,431	457	(1,974)
Asset Management	3,765	2,554	907	(1,647)
Total General Fund	**17,272**	**11,442**	**3,503**	**(7,939)**

5.3 At the end of Quarter 3, both the HRA and General Fund spend against the 2022/23 revised budget was very low. It is possible that further project expenditure could be deferred to 2023/24 and their total project budget reprofiled. Project team leaders are required to review scheme progress on an ongoing basis throughout the year and advise where there are significant revisions. The programme is under continuous review by the Capital Programme Overview Board (CPOB).

5.4 As per previous monitoring reports, Members are reminded that the construction sector is under pressure from rising prices for materials and labour shortages. It should be noted that the year-end forecasts have been provided against a backdrop of economic uncertainty, regarding supply chain challenges, building cost inflation and other factors outside of the control of those delivering the projects. Consequently, whilst based on best known information at Q3, there are likely to be changes to forecasts in future monitoring reports.

6 Treasury Management

6.1 The Annual Treasury Management and Prudential Indicators were approved by Cabinet and Council in February.

Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment Strategy, was approved by the Full Council on Wednesday, 9 February 2022. It sets out the Council's investment priorities as being:

- Security (of capital);
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 December 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 2 days (11 days Q2) during the period.

6.2 The Council's debt and investment position is managed by treasury staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

6.3 **Investments - Fixed Term Deposits**

The table below shows the fixed term deposits which have matured between 1 October to 31 December 2022, in maturity date order. It is important to note that the table includes sums re-invested.

Counterparty	Date From	Date To	Days	Principal £'000	Int. Rate %	Long-term rating
DMO	03/10/2022	18/10/2022	15	3,000	1.95	*
DMO	07/10/2022	18/10/2022	11	3,500	1.95	*
DMO	01/11/2022	22/11/2022	21	4,500	2.46	*
DMO	07/11/2022	21/11/2022	14	2,500	2.65	*
DMO	30/11/2022	20/12/2022	20	9,000	2.88	*
DMO	05/12/2022	19/12/2022	14	2,000	2.94	*
DMO	15/12/2022	19/12/2022	4	3,000	3.20	*

**UK Government body and therefore not subject to credit rating*

6.4 **Investments - Deposit Accounts**

In addition to the fixed term deposits, the Council has made use of the following interest-bearing accounts in the period covered by this report, with the average amount held being £2.37m (£2.56m Q2) generating interest of approximately £14,000 (£7,000 Q2).

	Balance at 31 Dec 2022 £'000	Average balance £'000	Interest rate %
Lloyds Current Account	629	1,592	0.01
Lloyds Call Account	10	1,761	0.40
Santander Reserve Account	5,000	3,769	1.36

6.5 **Borrowing**

In taking borrowing decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the quarter as there was no financial benefit to the Council.
- **Repayment** – none between 1 October and 31 December 2022

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB (Public Works Loan Board) during the quarter to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate as detailed within the table below.

Lender – Temporary Debt	£'000	Start Date	End Date	Rate
Loans held:				%
West Midlands Combined Authority	10,000	21/01/2022	20/01/2023	0.25
Hyndburn BC	2,000	28/02/2022	27/02/2023	0.70
Northern Ireland Housing Executive	10,000	20/06/2022	19/06/2023	1.20
West Midlands Combined Authority	5,000	23/05/2022	09/05/2023	1.20
West Midlands Combined Authority	10,000	25/07/2022	27/06/2023	1.80
Tendring DC	5,000	01/11/2022	01/08/2023	3.90
Northern Ireland Housing Executive	10,000	29/11/2022	28/04/2023	4.00
Loans repaid:				
Solihull MBC	5,000	20/09/2022	20/12/2022	2.35

6.6 Interest Rate Forecast

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points (bps)) which has been accessible to most authorities since 1st November 2012.

The latest forecast, made on 19th December, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Links current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous forecasts, Link money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- Links forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

6.7 **Economic Background**

The third quarter of 2022/23 saw:

- A 0.5% month on month rise in GDP in October, mostly driven by the reversal of bank holiday effects;

- Signs of economic activity losing momentum as households increased their savings;

- CPI inflation fall to 10.7% in November after peaking at 11.1% in October;

- A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October;

- Interest rates rise by 125 bps over Q4 2022, taking Bank Rate to 3.50%;

- Reduced volatility in UK financial markets but a waning in global risk appetite.

7 Appendices

7.1
- Appendix 1 – Housing Revenue Account
- Appendix 2 – Capital Programme